

**GENERAL PURPOSE STANDING COMMITTEE No. 1**

**Wednesday 8 September 1999**

**Examination of proposed expenditure for the portfolio areas**

**TREASURY, STATE DEVELOPMENT**

**The Committee met at 7.30 p.m.**

**MEMBERS**

Reverend the Hon. F. J. Nile (Chair)

The Hon. Patricia Forsythe

The Hon. A. B. Kelly

The Hon. D. F. Moppett

The Hon. P. T. Primrose

The Hon. H. S. Tsang

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**PRESENT**

**The Hon. M. R. Egan**, *Treasurer, Minister for State Development, and Vice-President of the Executive Council*

**Treasury**

**Mr J. Pierce**, *Secretary*

**Mr P. Achterstratt**, *Executive Director of State Revenue*

**Department of State and Regional Development**

**Mr L. Harris**, *Director-General*

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<1> **CHAIR:** I welcome you to this hearing and thank the Treasurer for his attendance. At this meeting the Committee will examine the proposed expenditure from the Consolidated Fund for the portfolio areas of Treasury and State Development. Before questions commence, some procedural matters need to be dealt with. Members of the media should be aware that Standing Order 252 of the Legislative Council states that any evidence given before this Committee and any documents presented to the Committee which have not been tabled in Parliament "may not, except with the permission of the Committee, be disclosed or published by any Member of such Committee or by any other person." Accordingly, this Committee has resolved in this regard to authorise the media to broadcast sound and video excerpts of its public hearings held tonight. The Committee's resolution conforms with the guidelines governing the broadcast of proceedings adopted by the Legislative Council on 11 October 1994. The attendant on duty has copies of these guidelines.

I emphasise that only members of the Committee and the witnesses before them may be filmed or recorded. People in the public gallery are not considered to be part of the proceedings and therefore may not be included in sound and video broadcast. In reporting the proceedings of this Committee, as with the reporting of the proceedings of both Houses of Parliament, members of the media must take responsibility for what they publish or what interpretation is placed on anything that is said before the Committee.

While there has been provision in previous years' budget estimates resolutions for members of a Committee and substitute members to refer directly to their own staff at any time, there is no such provision in the current resolution. Members and their staff are therefore advised that any messages should be delivered through the attendant on duty or the committee clerks. For the benefit of members and Hansard I ask departmental officials to identify themselves by name, position and department or agency before answering each question.

Unfortunately the Hon. Dr P. Wong is in Canberra as a guest of the Premier of China. He is the allocated crossbench member of this Committee and therefore sends his apologies. It has not been possible for any other crossbench member to replace him. On the basis of that, the approximate time allocation will be: Treasury: Opposition questions 45 minutes; Nile 15 minutes. State Development: Opposition questions 45 minutes; Nile 15 minutes, with the option for the Opposition to proceed with Treasury as the main area of questioning.

We have been advised by Government members that at this stage they do not plan to ask questions, but they reserve the right to ask a question of clarification if need be during the hearing. I declare the proposed expenditure open for examination and I ask the Treasurer if he wishes to make a brief opening statement?

**The Hon. M. R. EGAN:** No, Mr Chairman.

**The Hon. D. F. MOPPETT:** Treasurer, the State Revenue web site languishes with out-of-date 1997 revenue figures. Are you so embarrassed with the steep rise in the graph and the fact that New South Wales is the highest taxing State that you refuse to allow Treasury to update the graph of revenue beyond 1997?

**The Hon. M. R. EGAN:** I am not aware that the web site does not have revenue information on it. That could be my fault. As the Hon. D. F. Moppett knows, I am computer illiterate. It is not something that I boast about normally. I am not sure whether he is any more advanced than I am.

**The Hon. D. F. MOPPETT:** I do not have to answer that question.

**The Hon. M. R. EGAN:** No, you do not. Of course, we are a Government that in two budgets now has reduced taxation. We are a Government that has to put up with the fact that a huge proportion of the taxes that are contributed by New South Wales taxpayers are syphoned off to Queensland, to Tasmania, to South Australia and to Western Australia. We had some slight improvement on that at the last round of the Grants Committee.

**The Hon. PATRICIA FORSYTHE:** You never wanted to be a Robin Hood?

**The Hon. M. R. EGAN:** No, never. I found Robin Hood quite immoral. Others have described me as a Robin Hood.

**The Hon. D. F. MOPPETT:** But would you not agree that your revenue expectations are rising when you say taxes have been reduced? I am putting to you that there is a steep rise and that the public are entitled to know that.

**The Hon. M. R. EGAN:** I think the public are aware that the total tax revenue each year increases, although this year the expectation is that there will be a reduction in State tax revenue as a result of the reduction in tax rates that were introduced in this budget and some that were introduced in the prior budget. But even when tax rates were coming down one would expect total tax revenues to be on the increase simply because of the increase in the State's economic activity during the year.

One day in the past 12 months—I forget when it was—as an avid reader of the Australian Bureau of Statistics publication I became very excited when I realised for the first time that the State's gross State product exceeded \$200 billion. That is not bad.

**The Hon. PATRICIA FORSYTHE:** Treasurer, did you bully the Minister for Community Services into accepting the Treasury's directive to tender out group homes?

**The Hon. M. R. EGAN:** Well, I am a great friend of my colleague the Minister for Community Services, Faye Lo Po' but notwithstanding my friendship with her she is always bullying me, and she usually wins the day. That is why this year she got a huge increase in her budget. For example, the ageing and disability area in last year's budget had an allocation of \$705 million. This year's budget has an allocation of \$741 million. The other States have been increasing their expenditure too. In fact, I am informed by Treasury that the average increase in disability spending in the other States has been in the area of 50 per cent over the past five years—a very impressive increase. But I can proudly say that this Government has left the other States far behind. The increase in our budget funding for disability services since we have been in office is some 91 per cent.

**The Hon. PATRICIA FORSYTHE:** Treasurer, a very direct question: Was there a directive from Treasury about the process of tendering out of group homes?

**The Hon. M. R. EGAN:** Well, Treasury does not give directives. Treasury, during the budget process, discusses with agencies and Ministers possible ways in which they might stretch the dollar further and get more for any given dollar.

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**The Hon. PATRICIA FORSYTHE:** Did Treasury give advice that it could stretch the dollar further?

**The Hon. M. R. EGAN:** Certainly. I suggested to Mrs Lo Po's department and to Mrs Lo Po' that we should look at the advice which was given prior to the last election by Mr Phillips, and that man you got up from Melbourne, Mr Des Moore. They have been very critical of the fact that disability services were more expensive in New South Wales than they were in other States. If we can stretch the dollar further and help more disabled people we have an obligation to do that.

**The Hon. PATRICIA FORSYTHE:** Was the decision to tender out group homes promoted or pushed by Treasury?

**The Hon. M. R. EGAN:** It was a Government decision.

**The Hon. PATRICIA FORSYTHE:** What was the basis upon which the Treasurer decided that he could stretch the dollar further if he tendered out to private non-profit organisations?

**The Hon. M. R. EGAN:** It is not just a matter of stretching the dollar further. There is a view held by many people who are expert in that area that, in many cases, we can provide a better service. If the honourable member wants to ask questions about the Ageing and Disability Department she would do better

to ask her colleagues to raise those questions at the appropriate estimates committee, or she should raise them with the Minister who represents the Minister for Community Services, and Minister for Disability Services in the upper House.

**The Hon. PATRICIA FORSYTHE:** Did Treasury form the view that it would be more economic or more efficient to tender out to non-government services rather than to ask the Department of Community Services to provide services and group homes?

**Mr PIERCE:** Mostly on the evidence, for instance a comparison of the costs between jurisdictions. However I emphasise that in discussions between Treasury and the department we have a view on some issues and we put suggestions to agencies—this is across the board, as the Treasurer said—about how the dollar may be stretched further. At the end of the day we are concerned with the total allocation that goes to that agency. We hold agencies accountable. The means by which they achieve that allocation is the responsibility of the Minister and the department. We do not profess to be experts in managing the departments of Ageing, Disability, Health, Education, or any other department. The discussions give us a qualitative feel for the allocation that is appropriate for the agency, given the budget parameters, and then it is really up to the agency to determine the means by which it will achieve that allocation. We are not in the business of telling an agency specifically that it must do it in a certain way. Agencies, no doubt, may have better ways of doing it than we are aware of.

**The Hon. PATRICIA FORSYTHE:** Does the Treasury analysis suggest that the management of the Department of Community Services and the Department of Disability Services is less efficient than would be management by non-government services? If so, what was the reasoning for that? On what basis was that decision reached?

**The Hon. M. R. EGAN:** I am not sure that this actually deals with Treasury estimates.

**The Hon. PATRICIA FORSYTHE:** It goes to the role of Treasury, in the advice that is given.

**The Hon. M. R. EGAN:** The purpose of an estimates committee is to deal with the estimates of each department. I have two departments. One is Treasury and one is State Development.

**The Hon. PATRICIA FORSYTHE:** And Treasury gives advice to other departments?

**The Hon. M. R. EGAN:** If the honourable member wants to take up the time of this committee on that issue she has probably chosen to be a member of the wrong estimates committee.

**The Hon. PATRICIA FORSYTHE:** I am trying to determine Treasury's analysis in relation to this matter. This is not just about line items in the budget; it is also about advice that Treasury has given, for example, in relation to operational expenses.

**Mr PIERCE:** On the basis of interstate comparisons through things like the Commonwealth-State review of service provision, we refer to that in a range of areas in order to make comparisons between the performance of New South Wales government agencies and other agencies. That, for instance, would be a source of information that we would use to form, if you like, a hypothesis or a proposition that we could put to an agency to see what sort of response it would have and to determine whether it thought that it could improve its performance relative to other States through the means that those sorts of indicators suggest. I referred earlier to the agency's responsibility for achieving that allocation. Quite often we propose something to an agency and it says, "We will live without the allocation. We will get there through a route different from the one that you are suggesting."

**The Hon. D. F. MOPPETT:** By failing to reduce payroll tax to meet Queensland's 5 per cent rate by 1999, you retain an \$800 million burden on business, thereby failing to stimulate 15,000 private sector jobs. Will the Treasurer apologise to the New South Wales unemployed for failing to keep his promise to reduce payroll tax to 5 per cent by 1999?

**The Hon. M. R. EGAN:** For the umpteenth time I should point out that I have never made any promise to reduce payroll tax to 5 per cent—either before or after an election. The only commitment I gave on taxation prior to the last election was the commitment that I would not give a commitment—that tax rates would neither be increased nor reduced. I said that the likelihood was that tax rates would come down and they have come down. We have reduced payroll tax to 6.4 per cent and we will be reducing it further to 6 per cent. I do not think we will ever be able to match Queensland's payroll tax rate as long as New South Wales' taxpayers are subsidising Queensland.

The reason Queensland has a lower payroll tax rate than New South Wales is that each year the honourable member, every other New South Wales citizen and I contribute \$13,000 million in taxes to the Commonwealth Government. Instead of those taxes coming back as our fair share by way of Commonwealth grants to the States, those revenues go to other States. I do some interesting things in my leisure time. A month or so ago, when I was sitting at home one Sunday, it occurred to me that if, over the last 50 years, instead of subsidising Queensland, Western Australia and Tasmania that money had been coming to New South Wales, we probably would not have any State debt at all in New South Wales.

So I did some back-of-the-envelope calculations. Not only would we not have any State debt; we probably would have about \$300 billion in the kitty if we put all that money in the bank and let it earn interest. We would be a tax haven by now. We would not have any taxes in New South Wales. If, instead of not just getting our fair share, we actually received the subsidy which we have been giving to other States for the last 50 years, we would be about \$800 billion in front and we would be able to subsidise the Commonwealth Government's budget. We would be so far out in front that it would not matter.

**The Hon. D. F. MOPPETT:** It sounds to me as though the envelope that the Treasurer carries is a bit like the magic pudding.

**The Hon. M. R. EGAN:** No, what it means is that Federation has been a conspiracy against New South Wales from the day dot.

**Mr PIERCE:** I point out that the Commonwealth Grants Commission publishes its work. It prepares an index of relative tax burdens between the States.

**The Hon. M. R. EGAN:** I cannot let the honourable member get away with her earlier comments about employment. I have the Australian Economic Indicators for September 1999 which were released on 31 August—last Tuesday, in fact. If honourable members look at employment they will see that the latest unemployment rate in New South Wales is 6.1 per cent. That is a seasonally adjusted figure. For Victoria it is 7.6 and for Queensland it is 8 per cent. So even though Queensland's payroll tax rate is lower than the rates in New South Wales, thanks to our subsidies, our unemployment rate is very much lower. Likewise, if honourable members look at the employment figures for the last 12 months—the latest figures in this document are for July—they will see that we now have 2,934,000 jobs, and that is an increase of 61,000 jobs over the last 12 months. Victoria had an increase of only 21,000 jobs and Queensland had an increase of 44,000 jobs. So, we are well above the other States. Likewise, if you want to look at the State final demand figures, for the last quarter New South Wales had a growth of 2.7 per cent, by far the highest of all of the mainland States. Victoria actually had a decline of 1.2 per cent.

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**The Hon. D. F. MOPPETT:** I am sure, Minister, that you will comfort yourself with what comfort you may, as they say in the classics, but I want to return to what payroll tax does to employment in New South Wales. I remind you that John Larkin was the journalist who wrote that *Sunday Telegraph* article in April 1995. As recently as this week he has confirmed by telephone—he is in Korea at the moment—that the article set out your words exactly. Why is it that you continually deny the thrust of this article, that you promised to reduce payroll tax to 5 per cent?

**The Hon. M. R. EGAN:** If he says that, he is having himself on and having you on. I simply ask you: Why would I make a promise a week after an election that I did not make before the election? Does it not seem a bit bizarre? If we were going to reduce payroll tax to Queensland's level, do you not think we would have made that promise before the 1995 election rather than a week or two after it?

**The Hon. D. F. MOPPETT:** Surely you would agree that, on average, a cost reduction of one public sector bureaucrat would stimulate two private sector jobs if the cost saving is a payroll tax reduction?

**The Hon. M. R. EGAN:** Would you repeat that?

**The Hon. D. F. MOPPETT:** Would you not agree that if you cut the revenue from payroll tax so that you pay your own salary, so there was a cut of one public servant in that sector, the offset would be the stimulation of two private sector jobs as a result of the reduction of payroll tax that could be brought about if you even came up to five per cent?

**The Hon. A. B. KELLY:** Are you saying that it takes two private sector people to do one public service job?

**The Hon. D. F. MOPPETT:** I am asking the Treasurer, if you don't mind.

**The Hon. M. R. EGAN:** I have never heard that theory before, that you reduce the public service by one and get a net gain of two in the private sector. As I have said before, you are one of the few intelligent National Party members I have ever known, but that is a comment that would do Joh Bjelke-Petersen proud!

**The Hon. D. F. MOPPETT:** I commend it to your earnest consideration.

**The Hon. PATRICIA FORSYTHE:** Treasurer, what is the estimate of the cost to New South Wales taxpayers of the Carr Government's no-forced-redundancies agreement with your office?

**The Hon. M. R. EGAN:** It is probably a considerable cost, but we regard ourselves as a responsible employer and we believe that reducing public sector staffing in certain areas should be done sensitively and we like to do that through voluntary redundancy and natural attrition.

**The Hon. PATRICIA FORSYTHE:** "Considerable" is a fairly general term. Treasurers are used to working in figures. Have you costed it?

**The Hon. M. R. EGAN:** No I have not.

**The Hon. PATRICIA FORSYTHE:** Has Treasury?

**Mr PIERCE:** No.

**The Hon. M. R. EGAN:** I believe the Auditor-General made an attempt.

**Mr PIERCE:** Yes. In his last report the Auditor-General pointed out the effect of subsidies coming out of the budget into certain organisations, which he attributed to that policy. But Treasury has not attempted to make that sort of announcement.

**The Hon. M. R. EGAN:** Is it the Opposition's policy that we should abandon no forced redundancies?

**The Hon. PATRICIA FORSYTHE:** We are not here to be questioned.

**The Hon. M. R. EGAN:** But you have the opportunity to tell everyone. You do not have to sit there silent. You can tell us.

**The Hon. D. F. MOPPETT:** We are looking forward to your illumination.

**The Hon. M. R. EGAN:** The shadow treasurer is over there, he might like to tell us.

**The Hon. PATRICIA FORSYTHE:** Given that electricity revenue declined by 28 per cent last year but your budget projects an increase of 62 per cent in revenue over the next four years, will residents and/or

businesses pay increased electricity prices, or is your budget underpinned by electricity leasing or privatisation revenue?

**The Hon. M. R. EGAN:** I know I have told you on many occasions that I do not read the newspapers, but you have always assured me that you do read them. If you did, you would know there has been an IPART determination which will see retail electricity prices, particularly in the distribution segment, reduced. In fact, the IPART recommendation is for a cumulative 16 per cent real price reduction over the five-year period to 2003-2004. Depending on inflation, I would think not only that there will be a real reduction of around 16 per cent but that there will be a significant nominal reduction. I do not think we will have 16 per cent inflation over that period.

Just as electricity consumers have benefited over the last four years as a result of our reforms, they will continue to benefit. They are now paying in real terms much less than they were when we took office. Businesses in particular are paying much less, small businesses are also paying much less, and householders are paying much less than their counterparts in Victoria. Things will get better for them.

**The Hon. PATRICIA FORSYTHE:** But how do you account for the budget papers showing an increase of 62 per cent in the revenue?

**The Hon. M. R. EGAN:** One of the reasons the revenues this year are not as great as they have been in previous years is simply the introduction of a competitive market. We have surplus capacity of electricity in New South Wales. Over time there will be a better match of supply and demand and we expect that the revenue we receive from the generators would increase. Over time, revenue received from distributors will increase also.

**The Hon. PATRICIA FORSYTHE:** So that the basis of the figures is what you described as a better match over time of supply and demand?

**The Hon. M. R. EGAN:** For the generators, certainly.

**The Hon. D. F. MOPPETT:** The former Auditor-General said the workers compensation scheme was technically bankrupt, and the present Auditor-General says the scheme should be funded through increased premiums or from new taxes. What is your preferred solution to the workers compensation financial crisis?

**The Hon. M. R. EGAN:** After the very significant reforms to workers compensation in 1987, which saw the scheme go from a deficit to a surplus, the great tragedy is that in 1991 or 1992 your Government, when the present Leader of the Opposition in the lower House was the Minister responsible, changed the scheme and as a result it has gone from an annual surplus to an annual deficit. There has been a significant unfavourable turnaround. We have introduced two packages of reforms. Many of those reforms were opposed by the Opposition, which meant that they were not as effective as they could have been.

As the Governor said in his Speech yesterday, there will be another package of reforms in this Parliament, but you should also keep in mind that there is a cash surplus in the workers compensation scheme which is about \$5 billion, but that does not cover the full actuarial assessment of the total liabilities the scheme has.

So there will be a need for reforms in this session of Parliament. I hope the Opposition will not be as destructive as it has been in the past. I hope it will see the errors of its ways when it turned what was a very good scheme into one which is now having difficulties. I do not want to labour that point too much. Everyone is entitled to make mistakes, but when people make mistakes they should be honest enough to own up to them. I am hoping the Opposition will do that. I know that if you had your way, it would.

**The Hon. D. F. MOPPETT:** Could you identify the agencies that have expressed concern to Treasury officers about the blowout in the cost of workers compensation and what effect that will have on their budgets?

**The Hon. M. R. EGAN:** I think there are a number of agencies. I would not be able to specify them, but over the last few years I know that many agencies have found that their workers compensation bill has increased. To some extent that has happened in the private sector also, and that is why we need to reform the scheme. But I could not recall which agencies in particular have indicated a concern.

**The Hon. PATRICIA FORSYTHE:** In addition to Police, Corrective Services and Juvenile Justice, what agencies have advised Treasury officials that they need additional funding to meet this year's budget allocations?

**The Hon. M. R. EGAN:** Which agencies did you mention?

**The Hon. PATRICIA FORSYTHE:** I named Police, Corrective Services and Juvenile Justice.

**The Hon. M. R. EGAN:** All three agencies have received a substantial increase in this year's budget.

**The Hon. PATRICIA FORSYTHE:** Could you confirm that all three agencies have approached Treasury about seeking additional funding over this year's budget?

**The Hon. M. R. EGAN:** Listen, the job of Treasurer is to sit in his office every day, open the mail and see all the new demands for funds. It happens every day.

**The Hon. PATRICIA FORSYTHE:** Which department?

**The Hon. M. R. EGAN:** I would be surprised if there was not one that did not want an additional amount of money.

**The Hon. PATRICIA FORSYTHE:** Which one did not?

**The Hon. M. R. EGAN:** In this year's budget I have been able to provide literally every agency, every Minister, with a boost in funding, and I hope to be able to do the same next year.

**The Hon. PATRICIA FORSYTHE:** That is not the question. The question is: Which agencies have sought additional funding?

**The Hon. M. R. EGAN:** I would not be able to tell you.

**The Hon. PATRICIA FORSYTHE:** Will you take that on notice?

**The Hon. M. R. EGAN:** Any agency worth its salt would be knocking on my door. They do it day in and day out.

**The Hon. PATRICIA FORSYTHE:** Will you take that on notice?

**The Hon. M. R. EGAN:** I will take it on notice, yes.

**CHAIR:** You have made a statement that every agency is asking for money, so what would you supply on notice?

**The Hon. PATRICIA FORSYTHE:** I am asking the Treasurer to identify which agencies have approached Treasury seeking an increase in their budget allocation. I have identified three; he has not denied them.

**The Hon. M. R. EGAN:** Put the question on notice and I will take it from there.

**The Hon. PATRICIA FORSYTHE:** Do you confirm that Police, Corrective Services and Juvenile Justice have sought additional funding over this year's budget allocation?



**The Hon. M. R. EGAN:** I am not aware of any approach.

**The Hon. PATRICIA FORSYTHE:** Can I ask your advisers whether they have received approaches either in writing or by way of direct approach from officers of departments about an increase in allocations?

**Mr PIERCE:** I have not received any, nor have any of my officers approached me in response to a request that they have received. All I can say is that none have actually come to my desk directly from an agency, nor have any of my officers approached me since the budget was brought down. That is not to say that agencies, in the normal course of each day, do not raise budget issues with officers within the Treasury. But by no means do any of those discussions and issues that people raise lead to a conclusion that they are seeking an increase in their allocation.

**The Hon. PATRICIA FORSYTHE:** I will try to interpret the semantics. Has the director-general of any of those departments or the Commissioner of Police approached Treasury? If so, which Treasury officers would they have approached about an increased allocation in their budget?

**Mr PIERCE:** All I can say is that I am not aware of that having happened. It may well have happened, but the fact that I have not seen it means that it has not got to the stage of discussions between my officers and the officers of the other agencies; that they felt that they required an increase to their allocation. It is at that point that I would become involved. With the question on notice I will have the opportunity to review what requests have been made.

**The Hon. M. R. EGAN:** Any agency would have to have a very, very compelling case for us to consider supplementation of the amount that has been appropriated by Parliament and which, in almost every case, is a significant increase on last year's allocation.

**The Hon. PATRICIA FORSYTHE:** Clearly, you have determined that no department has a compelling case. What I am asking is which departments believe they have a compelling case?

**The Hon. M. R. EGAN:** What did you just say?

**The Hon. PATRICIA FORSYTHE:** I said clearly you do not believe that any department has put to you what you would see as a compelling case, but the department sees in its own eyes that it has a compelling case. I am asking whether you have granted anybody an increase in their allocation.

**The Hon. M. R. EGAN:** But on the one hand you and your colleagues accuse me of being a big spender. Can you make up your mind what the criticism is that you are levelling at me?

**The Hon. PATRICIA FORSYTHE:** I have not made that allegation about you. I am concerned, for example, about the Department of Juvenile Justice.

**The Hon. M. R. EGAN:** You do not think that Mr Debnam is right?

**The Hon. PATRICIA FORSYTHE:** No, I am particularly raising issues about some departments.

**The Hon. M. R. EGAN:** You do not think Mrs Chikarovski is right?

**The Hon. PATRICIA FORSYTHE:** I will ask you specifically about the Department of Juvenile Justice.

**The Hon. M. R. EGAN:** You are the third contender, are you, for the leadership?

**The Hon. PATRICIA FORSYTHE:** I am asking you specifically about the Department of Juvenile Justice. Has the Director-General of the Department of Juvenile Justice, or have officers from that department, approached Treasury about the concerns that insufficient funds were allocated to that department in the budget?

**The Hon. M. R. EGAN:** I do not know the answer to that, but I know that the Minister has recently approached me and said that she would be corresponding with me on a budgetary matter. As I am yet to know of a Minister who writes to me and says, "I would like to pay back some of the money you have given me," I can only assume that she wants to talk to me about getting more money.

**The Hon. PATRICIA FORSYTHE:** Is she the only Minister who has written to you?

**The Hon. M. R. EGAN:** She is the only Minister who has raised that with me.

**The Hon. PATRICIA FORSYTHE:** If she has raised that with you, what has she said will be the implications for the department if it does not get any additional allocation?

**The Hon. M. R. EGAN:** We have not discussed it yet.

**The Hon. PATRICIA FORSYTHE:** You have not sought to inquire?

**The Hon. M. R. EGAN:** No, she said that she would raise it with me.

**The Hon. D. F. MOPPETT:** You continue to withhold information from the Parliament and the public, including arbitrarily delaying the release of monthly financial reports. Given that your budget is skating on very thin ice, is your obsession with secrecy simply an attempt to conceal the fragility of the New South Wales budget?

**The Hon. M. R. EGAN:** You look as though you have been given the questions that are usually drafted for Jim Samios.

**The Hon. D. F. MOPPETT:** I would be grateful if you would address the question rather than transgress into matters of speculation.

**The Hon. M. R. EGAN:** You talk about skating on thin ice. In Budget Paper No. 2, at page 2-11, you will see that at budget time we were predicting a surplus for the last financial year of \$382 million; the previous year there was a deficit of \$39 million, notwithstanding that we lost \$400 million as a consequence of the High Court case on business franchise fees; the previous year we had a cash surplus of \$151 million; the previous year, our first year, we had a deficit of \$147 million; the previous year, which was your last year in government, you had a deficit of \$590 million; the year prior to that, which was 1993-94, there was a deficit of \$896 million; the year prior to that, 1992-93, there was a deficit of \$1,115 million; the year prior to that there was a deficit of \$1,626 million; and the year prior to that there was a deficit of \$1,223 million.

You can see that we have gone from a rock-bottom deficit of \$1,626 million under your Government to a significant surplus in the last financial year, another surplus this year, and surpluses projected for each of the three out years. That, of course, means that we have been able to significantly reduce our debt. We have also been able to reduce our unfunded liabilities. The net result over four years has been a reduction in the State's total net financial liabilities of some \$3.23 billion—a huge amount of money! It is the first time in the State's history that we have seen a reduction in the State's net financial liabilities. In other words, we are the first Government to reduce it rather than add to it.

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I took Standard and Poor's to dinner last night and they made the point to me that before my three surpluses there had only ever been one in the history of the State and they took me to task. They said, "Why, in the budget papers, do you only go back to 1988. You should go back to the 1960s and you would see that there never was a surplus before 1988-99." I said to them, "I think you make a very good point." In next year's budget papers we will go right back to 1960 because I am very proud of the fact that my budgets overall have been well in surplus; not only cash surpluses but outstanding operating surpluses.

The operating surpluses have been in the billions of dollars each year, which means that we are able to fund all of our new schools, hospitals, roads and community facilities without going into debt. We are reducing debt and we have paid for the Olympics. We have paid for all that Olympic construction; 85 per

cent of the Olympic construction budget is already paid for. In this financial year another 11 per cent will be spent and paid for, and in the Olympic year there will only be 4 per cent left to be paid. I would not say we are skating on thin ice; I think we are coming through with flying colours. The State has an unquestioned triple-A credit rating, our financial strength improves from year to year and it will keep on improving.

**The Hon. D. F. MOPPETT:** After that we will all join in singing the song of the Hebrew slaves.

**The Hon. M. R. EGAN:** I have never heard you sing. I would like to hear it.

**The Hon. D. F. MOPPETT:** I do not want to embarrass you by referring again to your newspaper illiteracy but in the *Australian* on 20 July Alan Wood, that respected financial commentator, whose work I am sure even you are familiar with, wondered who in government understood accrual accounting, and wrote:

Certainly it is not Michael Egan. Introducing his last budget at a media lock-up, Egan began by volunteering a brief explanation of accrual accounting that merely demonstrated his confusion.

Did you write to Alan Wood taking exception to his comments and endeavouring to put him straight?

**The Hon. M. R. EGAN:** I certainly did not write to him, or did I? Yes, I think I might have. Did they publish it?

**The Hon. PATRICIA FORSYTHE:** Did you write or not?

**The Hon. M. R. EGAN:** I probably did but I think I took him to task somewhere. I think I saw him and took him to task.

**The Hon. D. F. MOPPETT:** Out at the races perhaps?

**The Hon. M. R. EGAN:** No, I do not think he goes to the races, although given the renewed strength of the racing industry in New South Wales as a result of the privatisation of the TAB and other measures which my colleague the Minister for Gaming and Racing has taken, about once every six months I do go to the races. I enjoy the races. The last time I went I backed a winner.

**The Hon. D. F. MOPPETT:** Which just goes to prove that it is only the Government that is doing well in the racing industry.

**The Hon. M. R. EGAN:** So I would not have met him there, but I got the impression from hearing about that article that he did not understand what accrual budgeting was all about. Would you like me to give you in general terms the sort of description that I gave to the budget lock-up?

**The Hon. D. F. MOPPETT:** I think we will take that on notice, thank you.

**The Hon. M. R. EGAN:** Okay.

**The Hon. PATRICIA FORSYTHE:** Will you give it on notice?

**The Hon. M. R. EGAN:** If you would like me to write a treatise on it, I probably will.

**CHAIR:** Is that a serious question on notice? Do you want accrual accounting explained?

**The Hon. D. F. MOPPETT:** I would be reluctant to use up the valuable time of this Committee with a long-winded explanation of accrual accounting.

**The Hon. PATRICIA FORSYTHE:** I would be interested.

**The Hon. M. R. EGAN:** How about one day I ask the President to give you the nod during question

time. In fact, I will even extend question time for a half an hour and give you an account then.

**The Hon. PATRICIA FORSYTHE:** Why not take the opportunity of estimates and put it on notice?

**The Hon. M. R. EGAN:** Essentially, cash accounting simply relates to the cash in and cash out during the year. It does not measure the change in your net wealth and it does not necessarily measure the change in the financial position. The accrual result is very similar to the profit and loss of a private company. It simply means that if you have an accrual surplus you are adding to your wealth, and if you have an operating deficit you are eating into your net wealth. It might well mean that your actual financial debt goes up, but that is not necessarily a measure.

**The Hon. D. F. MOPPETT:** With respect, Minister, I believe that I understand accrual accounting. The question really was seeking assurance in view of the report of that noted financial commentator.

**The Hon. M. R. EGAN:** I think you and I had better invite Alan Wood to lunch and we will both explain it to him.

**The Hon. PATRICIA FORSYTHE:** Given that for most of the decade the Government has been working on updating New South Wales financial management legislation, when will you finally introduce the new legislation?

**The Hon. M. R. EGAN:** I cannot answer that yet because I need firstly to satisfy myself with the final package and then I need to take it to Cabinet.

**The Hon. PATRICIA FORSYTHE:** Are we near a final package?

**The Hon. M. R. EGAN:** I am not sure whether I am near to taking it to Cabinet.

**CHAIR:** I have some general questions. As you are well aware, the former Auditor-General, Mr Harris, was critical of the way in which Treasury documents had been prepared and he claimed it was difficult to audit them. Do you accept his criticism, and, if there is any truth in the criticism, does that mean there will be some changes in the budget and accounting procedures?

**The Hon. M. R. EGAN:** No, I do not. I think we have the best set of financial statements in the country. New South Wales has led the way in financial reform, going back to the early eighties when Ken Booth was Treasurer. I must say there were also significant further reforms during the Greiner period and perhaps even during the Fahey period. We have been continuing those reforms. Our budget papers and the information we provide are probably the most comprehensive and the most relevant of any government in Australia.

**CHAIR:** Is there an explanation for his criticism?

**The Hon. M. R. EGAN:** The only comments I would make are ones that I have already made. You will recall the former Auditor-General coming to the Parliament last year. I sometimes found it difficult to understand the arguments that he was putting. Different people will have different views but Mr Pierce might like to comment.

**Mr PIERCE:** The issues that the Auditor-General were, raised from my recollection, mainly concerned with compliance issues associated with the legislative provisions governing appropriations rather than the reporting itself. They were very much the sort of issues being raised in the lead-up to that appearance before the Legislative Council. You will recall that the majority of his concerns related to transfers between programs, so that within the financial management practices, we allow, under delegation from the Treasurer, Ministers to approve transfers of funds from one program to another, provided there was not an increase in their total expenditure.

The issue he was primarily raising was that in his view it was necessary for the approval for that

transfer to occur prior to the expenditure actually being incurred. The practice had been that people undertook those transfers and sought approval for it afterwards as long as the total appropriation was not exceeded. In response to that we introduced an amendment to the Appropriation Act so that appropriations are made to an agency rather than to a program. In that way the agencies have flexibility to allocate funds according to the Government's priorities at the time. This is very much in line with the idea of meeting unforeseen expenditures by offsetting other expenditures within the portfolio rather than having to come to Treasury to seek an increase in appropriation.

In December 1998 a circular was issued to all budget-dependent agencies drawing attention to the need for strict compliance with relevant legislative provisions regarding appropriation. The circular emphasised particularly—given that allocations are made to an agency rather than a program—that liabilities should not be incurred because of appropriations from the fund being exceeded without first obtaining the approval of the Treasurer. We tightened up or re-emphasised the need for agencies to get appropriate approvals before those commitments were made while giving back to the agency clear management accountability for managing within an appropriation.

**CHAIR:** As far as you are aware, all the agencies are conforming with that instruction?

**Mr PIERCE:** Yes. Following the audit of the 1998-99 financial statements, the Auditor-General noticed 11 instances where agencies had not followed those instructions. The total value of that was a bit over \$8 million, which represents 0.3 per cent of the total appropriation.

**The Hon. M. R. EGAN:** No, it does not. It is actually 0.2 per cent.

**Mr PIERCE:** In six out of 11 cases, there had been an inappropriate allocation of expenditure between recurrent and capital, so that was an accounting classification issue which was revisited by the Treasury and the agency and made consistent with accounting standards. In two other cases the expenditure had been incurred on the understanding that approval had been obtained under section 22 of the Public Finance and Audit Act. However, there was an administrative oversight in two out of those 11 cases. Since then a new system has been implemented within Treasury which more accurately reports to Treasury when these requests are being made. In my view, the system is more automated; hence it relies less upon either agency people or Treasury people to notice whether the particular request fits within the circumstances. That should reduce even further, down to zero, the likelihood of the two instances where administrative oversight occurred.

**CHAIR:** At page 2-23 of Budget Paper No. 2, under the heading "2.5—Budget Risks", reference is made to Commonwealth Government policy, most notably the outcome of the Commonwealth Government's proposed tax reforms. The point is made that when the budget was completed, the reform legislation had not yet been passed by the Federal Parliament. The legislation has now been passed and the anticipated goods and services tax [GST] income to be allocated to the States will now be reduced because food will be exempt from GST. What impact do you think that will have on tax revenue and on your planning? One of the selling points of the new tax was that it would reduce some of the taxes of the State. Will that have some effect on that proposal now?

**The Hon. M. R. EGAN:** It will. The time when the States will benefit has been extended to 2004-05. In the meantime the Commonwealth has told New South Wales and the other States that it will top up the revenue that would have been obtained from their goods and services taxes to ensure that they are no worse off than they would have been under the pre-GST arrangements. If it takes us until 2004 or 2005 to be a winner, up until then the Commonwealth Government will top up this State. A few arguments are circulating on the specific issues around the margins on how we stand to lose a bit here and there, but essentially we will not be worse off in the introductory period. From at least 2005 or so we will be better off. At the same time, some of the taxes which were originally designed to be replaced by GST will stay.

**CHAIR:** Can you detail what the situation will be with those State taxes? One of the selling points was the abolition of those State taxes. If they are not abolished, that will have an effect on public opinion.

**The Hon. M. R. EGAN:** The taxes that will go will obviously be the Commonwealth wholesale sales tax, the bed tax in New South Wales and the Northern Territory, financial institutions duty and share transfer duty, which will be abolished on 1 July 2001. I think that is a little late in respect of both of the latter taxes as it is a period of 12 months. The debits tax was to be abolished up front but will now not be abolished until 2005. A number of other taxes which are mainly stamp duty on various business transactions are not the subject of abolition. They have been put off until never-never. My expectation is that unless there is a full round of Commonwealth-State financial reforms, they never will be abolished.

**Mr PIERCE:** The intergovernmental agreement has within it the other group of stamp duty that the Treasurer referred to. They will be reviewed by the ministerial council chaired by the Commonwealth Treasurer in 2005 to determine or look again at their possible abolition. They were taxes which, under the regional package, were due to be abolished up front. In effect, our fiscal position has been maintained through a combination of additional payments from the Commonwealth and a rescheduling of taxes that would be abolished.

**The Hon. M. R. EGAN:** The ministerial council to which Mr Pierce referred will probably take the place of the annual Premiers' Conference meeting, so it will really be an annual Treasurers' conference meeting. We found that our heads of government were a bit slow on these matters, so we will not have to put up with them any longer.

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**CHAIR:** Perhaps this is a political statement, but what is your opinion of the new Commonwealth tax reforms from the State's point of view?

**The Hon. M. R. EGAN:** It is a lousy package, overall. It is still an inequitable package, but the problem from the State's point of view is that although at this stage there is the promise that we will get more revenue down the track from the GST than we will get from the current arrangements, it could always be changed. We have had guarantees and assurances over the past 20, 30 and 40 years from Commonwealth governments of both political complexions. Their commitments, their guarantees, I am sure were always made in good faith.

But two or three years down the track some other circumstances arise and the Commonwealth, often for very good reasons, decides that it has to save money, and it is always the States that cop it in the neck and that means the face-to-face services that the States provide will suffer. At any stage down the track there is the possibility that not only could the 10 per cent GST rate be changed by a simple Act of the Commonwealth Parliament, but also the guarantee, the assurance, that all of the GST revenue will come to the States, could be changed by an Act of the Commonwealth Parliament.

**CHAIR:** Is there any possibility that the GST could be divided up to the States on a pro rata population basis to get over the problem you mentioned earlier about Queensland and other States getting an unfair slice?

**The Hon. M. R. EGAN:** We wish! We have argued for that and did so again at the Premiers' Conference this year. Even though New South Wales will be providing about 36 per cent of the total GST revenue, it will get back just less than 30 per cent. So, again, that huge amount of tax which the people of New South Wales will pay in GST will go to Queensland, Western Australia, South Australia and Tasmania. Victoria is, to some extent, in a similar position, but not quite as badly affected as New South Wales. Victoria and New South Wales have shouldered far too much of the burden for far too long. We got a slight improvement in the last Commonwealth Grants Commission recommendations, but we have a long way to go.

**CHAIR:** The Opposition may now ask questions.

**The Hon. D. F. MOPPETT:** My colleague the shadow Minister for Regional Development is detained in his electorate attendant upon the Governor's visit.

**The Hon. M. R. EGAN:** Who is the shadow Minister for Regional Development?

**The Hon. D. F. MOPPETT:** Mr Armstrong.

**The Hon. M. R. EGAN:** Good man!

**The Hon. D. F. MOPPETT:** Yes, and he has sent along a set of questions, because of his absence. He has asked that one set of questions be asked and then the departmental officers can leave, if convenient. The questions are: Did the Government provide any funding out of the State and Regional Development Fund for the construction of the stadium on the Central Coast? Is the Government confident that the North Sydney Rugby League Club will be retained in next year's National Rugby League [NRL] competition? What contingency plans does the Government have to ensure that the stadium is utilised should North Sydney be dropped from the NRL competition? Do you believe that the money allocated to the new stadium on the Central Coast is a good investment for taxpayers' money?

**The Hon. M. R. EGAN:** I think that the money attributed to Grahame Park on the Central Coast is very important to the Central Coast. Certainly if the North Sydney club moves to the Central Coast, Grahame Park will become its field. But I am sure that it is a facility of much more general importance to the Central Coast. I have been concerned for a long time that the Opposition appeared to be critical of the Government's assistance to the Central Coast, notwithstanding that that assistance has been matched by the Commonwealth Government.

In this area the Commonwealth Government has been much fairer to the Central Coast than the State Liberals and the State National Party. I am certainly very keen to make sure that the State Opposition's opposition to a contribution to Grahame Park is well understood on the Central Coast. I intend to visit the Central Coast to let people know about it; I might even go doorknocking. I will certainly leave no stone unturned to make sure that everyone on the Central Coast knows and understands the full depth of hostility which the Opposition has.

**CHAIR:** The Hon. D. F. Moppett said that the departmental officers can leave, but I have some questions about State Development from the Hon. Dr P. Wong, so I ask them to remain.

**The Hon. PATRICIA FORSYTHE:** Treasurer, on 12 July State Revenue sent a final notice to an 80-year-old pensioner threatening to drag her to court unless she paid her total land tax debt within 14 days. She received the threat on 29 July, 17 days after the final notice date and three days after the deadline for payment.

**The Hon. M. R. EGAN:** What date was that?

**The Hon. PATRICIA FORSYTHE:** She received the notice on 29 July, which was 17 days after the final notice date and three days after the deadline for payment. That final notice was issued by State Revenue despite having previously sent the pensioner an indefinite extension. The pensioner was obviously distraught and State Revenue subsequently admitted that there is no double checking as similar threats are issued automatically. Why is the department's management that disorganised?

**The Hon. M. R. EGAN:** When did you first become aware of this?

**The Hon. PATRICIA FORSYTHE:** The shadow Treasurer is aware of this issue.

**The Hon. M. R. EGAN:** When did he first become aware of it?

**The Hon. PATRICIA FORSYTHE:** I cannot answer that; I am not here to answer questions, you are.

**The Hon. M. R. EGAN:** I am very surprised that I have only just been informed of it.

**The Hon. D. F. MOPPETT:** Your surprise is not the subject of our inquiry.

**The Hon. M. R. EGAN:** You are falling down on your duty if you do not draw things like that to the

Government's attention quick smart. When I was in regular receipt of representations from constituents, as I was as a member of the lower House and the member for Cronulla, I did not muck around, I got onto the case quick smart.

**The Hon. PATRICIA FORSYTHE:** I indicate that the shadow Treasurer wrote to Mr Smith, Director of the Compliance Division in the Office of State Revenue, about this issue on 31 July. This gives rise to the question of why the department's management is so disorganised.

**The Hon. M. R. EGAN:** In the whole of my time as the member for Cronulla I never made representations to an official; I always made representations to a Minister. Whilst the constituent was in my office I got on the phone.

**The Hon. PATRICIA FORSYTHE:** That may have been your approach, but the shadow Treasurer chose to follow it up by writing to the Office of State Revenue.

**The Hon. M. R. EGAN:** That probably suggests why you are still in Opposition, if you treat constituents with such disdain and contempt. I think it is absolutely appalling.

**The Hon. PATRICIA FORSYTHE:** Judging by that date, he would have responded on the day on which he received the letter.

**The Hon. M. R. EGAN:** It is absolutely appalling. You should all be ashamed of yourselves.

**The Hon. PATRICIA FORSYTHE:** What about the department? Should it not have some responsibility for its mismanagement?

**The Hon. M. R. EGAN:** Certainly. My point is that as a member of Parliament with something like that I would not have been mucking around writing to an official; I would have been on the phone to the Treasurer himself.

**The Hon. D. F. MOPPETT:** It would seem that he handles his correspondence more adroitly than does the department in relation to its clients who owe it money.

**The Hon. M. R. EGAN:** I do not always attend to correspondence on the day I receive it, because I receive a great deal of correspondence. But I do have experience of being a member of Parliament representing constituents. When I was the member for Cronulla, I was on the phone within five minutes of a constituent leaving my office in an attempt to rectify a situation. I did not muck around. Whenever a constituent had a problem, I tried to fix it; I did not try to make political capital from it.

**The Hon. D. F. MOPPETT:** We accept that you are not really interested in the problem of the pensioner and will move on. Given that you have already written off hundreds of millions of dollars of bad debts, will you outsource bad debt collection?

**The Hon. M. R. EGAN:** I am told that the Public Accounts Committee made a recommendation along those lines. As you may imagine, as Treasurer and as Minister for State Development I get some exciting opportunities to open things or launch things. Last Friday I opened a debt collection agency in Parramatta. It reminded me of the Public Accounts Committee recommendations, and I think they should be considered. I must admit, I have not turned my mind to it yet.

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**The Hon. D. F. MOPPETT:** Treasurer, during your administration the write-offs of bad debts have seriously escalated. What about the question of debtor management, apart from debt collection? Would you be interested in outsourcing that as well?

**The Hon. M. R. EGAN:** That is something I would be quite happy to look at. I think that would be in keeping with the Public Accounts Committee recommendation. I do not know whether Mr Pierce has any advice?



**Mr PIERCE:** Not on looking at that particular recommendation, but it is probably worth pointing out that as at the end of 1998-99 overdue debt to the Office of State Revenue represented less than 1 per cent—0.9 per cent—of the total annual revenue. The benchmarking that we do with other revenue collection authorities—and perhaps Peter can comment on the Commonwealth experience—and other public and private businesses indicates in statistical terms their debt management and debt management statistics rank up there with the best.

**Mr ACHTERSTRATT:** That is clearly the case, as Mr Pierce has said. The Office of State Revenue has a proud record of client focus. Married with that, one has to balance the collection of debts, and the efficiency of the debt collection area is best practice for tax administration. As Mr Pierce has said, less than 1 per cent of the total revenue outstanding is an enviable statistic.

**The Hon. PATRICIA FORSYTHE:** Treasurer, can I turn to one of your favourite subjects: Professor Walker. I understand he has been appointed chairman of the Superannuation Administration Corporation from July. Can you advise what fee he is being paid for that particular responsibility and, as part of that responsibility, what hours he is required to work?

**The Hon. A. B. KELLY:** Are these questions not on notice from last night?

**The Hon. PATRICIA FORSYTHE:** I thought they would be appropriate for the Treasurer.

**The Hon. M. R. EGAN:** No, I am not aware of his remuneration as chairman of the new Superannuation Administration Corporation. Yes, Mr Pierce has a note here. As chairman he receives \$52,000 per annum.

**The Hon. PATRICIA FORSYTHE:** Can I ask in relation to that what is the level of responsibility?

**The Hon. M. R. EGAN:** By the way, I think that is in accordance with the fee structures that were set for members of State-owned corporations during a previous government. I think they might have been adjusted for inflation over the years but they are certainly not out of step with what was set by, I think, the Greiner Government or it may have been the Fahey Government.

**The Hon. PATRICIA FORSYTHE:** Can I ask again what days or hours he is required to work for that fee?

**The Hon. M. R. EGAN:** No, he is not an employee of the authority; he is the chairman. The chairman and directors of the corporation, none of them are employees, they attend to the duties of the board. Of course, it varies with the organisation, depending on the style of a director or a chairman. I know some chairmen of State-owned corporations might spend two or three days a week on the affairs of the corporation. Sometimes in the early stages, just after their initial appointment for six or 12 months, it might even be more than that. It depends on the individual and the task to be undertaken.

**The Hon. PATRICIA FORSYTHE:** Does Treasury consider the \$10 million that has been spent on the Council on the Cost of Government to be good value for taxpayers' funds?

**The Hon. M. R. EGAN:** I think it is good value, yes. It took the place of a number of other units or organisations which went under all sorts of names. When I was first elected to Parliament there was a thing called the Public Service Board and it used to have a unit—I forget what its name was. At the same time the Premier's Department had a similar unit, and the formation of the Council on the Cost of Government brought all the various units together and I think it is working quite well.

**The Hon. PATRICIA FORSYTHE:** Notwithstanding your view, does Treasury duplicate some of the investigative work of the Council on the Cost of Government?

**The Hon. M. R. EGAN:** I would expect there could be some overlap but I know Treasury and the Council on the Cost of Government try to make sure they are not doing the same work.

**Mr PIERCE:** The council produces, for its own management purposes, a work program, just like anyone else. I certainly take a keen interest in ensuring that not only are we not duplicating one another but wherever possible the two agencies' work should complement one another. A lot of the work the council has done in putting together, for instance, the service efforts and accomplishment reports, produces information that has a useful input into the budget process and the sorts of analysis that the Treasury does. There have been a couple of cases where we have both had an interest in a particular agency and even in those cases we have ensured that people are not duplicating one another. The staff within the council have a particular set of skills and the staff within my department have a particular set of skills, and we try to put a team together where those skills complement one another.

**The Hon. M. R. EGAN:** I point out also, Mr Chairman, that Mr Pierce is actually a member of the Council on the Cost of Government, as is, I think, the Director-General of the Cabinet Office and the Director-General of the Premier's Department.

**The Hon. PATRICIA FORSYTHE:** Does Treasury pursue agencies to follow up recommendations from the Council on the Cost of Government?

**The Hon. M. R. EGAN:** Mr Pierce might be able to answer that. I would not think that as a matter of course it operates in that way but from time to time in monitoring an agency's budget performance I am sure it would have regard to recommendations that the Council on the Cost of Government has made.

**Mr PIERCE:** There is no automatic process for doing that, however. As the Treasurer said, I am a member of the council, the council itself certainly follows up on those recommendations and quite often the recommendations go to the budget committee of Cabinet, at which point the Treasury would formally get that advice from the council. In those cases, if it is something the budget committee has decided on, we would most certainly follow those up. But other types of recommendations do not need to go to the budget committee for them to be taken up by an agency. It is up to the agency management.

**The Hon. PATRICIA FORSYTHE:** If it is not a matter of course and it is not automatic, why would you spend \$10 million on the Council on the Cost of Government if its recommendations are not taken seriously by Treasury and agencies?

**Mr PIERCE:** I would not imply by that comment that they are not taken seriously. They certainly are. In the context, for instance, of the lead-up to putting the budget together my office would be reviewing not only things like the Commonwealth-State service provision reports that I referred to earlier, the service efforts and accomplishment reports that the council puts out and also the results of the program reviews that the agencies have had through the Council on the Cost of Government. During that process agencies would be seeking to see what sort of implementation they had. The reference to automatic follow up is probably a reference to the monthly monitoring that we do of agencies. It is not something that we build into computer systems. We have an analyst sit down and ask, "Where is this agency going to go in the future?" Then the program review is undertaken by council secretariat as a prime source of information.

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**The Hon. D. F. MOPPETT:** The December 1998 report from the Council on the Cost of Government was highly critical of the Carr Government's administration. The report was kept secret until after the State election. Did Professor Walker complain to the Treasurer about the political delay in the release of his report?

**The Hon. M. R. EGAN:** I am not actually sure what report the honourable member is referring to. I am not aware of it.

**The Hon. D. F. MOPPETT:** The December 1998 report of the Council on the Cost of Government.

**The Hon. M. R. EGAN:** I certainly have not read it and I must admit that I am not aware of it.

**CHAIR:** The Hon. Dr P. Wong has a number of questions relating to Treasury and State Development. It is probable that one or two of them will have to be taken on notice. I will simply present the questions. Is

the 1999-2000 budget estimate of \$54 million an amount for the rationalisation of surplus staff within the public sector? What kind of positions and in which areas in the public service is this estimate related to? How many positions in total will be cut as part of this rationalisation?

**The Hon. M. R. EGAN:** I think that \$54 million is an item on page 21-7 of Budget Paper No. 3, Volume 2, under Crown Transactions Entity. The entry is:

\$54 million for rationalisation of surplus staff within the public sector generally.

I am not quite sure what that relates to. We might be able to get an answer to that question before the night is out.

**CHAIR:** Has the Treasurer approved a request for funding to the Ministry for Corrective Services in the 1999-2000 budget for the purpose of constructing a new prison facility for the primary purpose of housing women offenders? How much money has the Treasurer approved for this project? On what grounds did he approve that request?

**The Hon. M. R. EGAN:** I might take that question on notice, unless it is listed in Budget Paper No. 4, which is the State Asset Acquisition program.

**The Hon. D. F. MOPPETT:** It is, under Corrective Services.

**The Hon. M. R. EGAN:** Would that be the Mulawa redevelopment?

**The Hon. D. F. MOPPETT:** It is a separate one at Windsor. It is on page 49 of Budget Paper No. 4—New Women's Gaol, South Windsor, \$42 million.

**CHAIR:** Has the Treasurer approved a request for funding from Corrective Services for the purpose of constructing a new prison facility for the primary purpose of housing women offenders? How much money has the Treasurer approved for the project? On what grounds will it be approved?

**The Hon. M. R. EGAN:** The estimate is \$42 million. We have made available \$6 million in this year's budget. We start construction in 1999 and it should be completed by the year 2002, but I have to admit that that is my only knowledge of it. I do not recollect anything other than that. If the Hon. Dr P. Wong requires any more information, no doubt we can obtain it.

**CHAIR:** The Hon. Dr P. Wong has two questions on State Development. One of the initiatives of the Department for State Development during 1999-2000 is to appoint a specialist investment and trade advisor responsible for sourcing trade and investment opportunities and identifying potential business partners in Hong Kong and China. How much money in this budget is allocated for this initiative? What is the estimated contribution in total of this initiative to the New South Wales economy over the next four years?

**Mr HARRIS:** An amount of \$100,000 was allocated in this year's budget. The normal cost of operating a project such as that would probably be in the region of about \$200,000 or slightly in excess of \$200,000 a year. But because of the time involved in recruitment and in setting up initial contacts, we believe that \$100,000 is appropriate in the budget this year.

**CHAIR:** Another question relating to State Development concerns the regional headquarters tax concession program. How much money was allocated for that regional headquarters tax concession program and what is the estimated benefit of this program for the New South Wales economy?

**The Hon. M. R. EGAN:** One of the key planks of our economic development plan and our job strategy is the encouragement of regional headquarters in New South Wales. Well over 60 per cent of the total Asia-Pacific regional headquarters are now located in New South Wales. They are important to us. They cover a range of industries—finance, information technology, manufacturing, insurance, pharmaceuticals, you name it. People around the world who want to do business in the Asia-Pacific region

need a base. More and more people are discovering that Sydney, New South Wales, Australia, is a first-class business location and regional headquarters are locating here. By the year 2005 we believe that we will overtake Singapore as an Asia-Pacific regional headquarters location. We are well on track for that. We seem to be doing about 30 or 40 a year in New South Wales. The last time I looked, Singapore seemed to be going nowhere. That is because we are a much better location.

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Some time ago Mr Harris and I held a function to form a call centre attraction team. That consisted of representatives of 12 very large telecommunications companies that were operating in Australia, of which nine are based in Sydney, one in Melbourne and I believe two in Singapore. I asked: "Did you make the right decision in deciding where you would set up your regional headquarters?" All of those in Sydney said they had made the right decision and the two companies that had set up in Singapore said, "If we had the chance again, we would set up in Sydney." Very often these regional headquarters start out small but as their operations expand throughout the Asia-Pacific region—which, despite recent economic difficulties, is still in the medium and long term the region that will have the fastest economic growth—even fairly modest companies go on to be significant ventures and they will be based here.

**The Hon. A. B. KELLY:** I will have to ask you a question during question time about that. We have not had questions of that kind for quite a while.

**The Hon. M. R. EGAN:** I was disgusted today that after 2½ months of parliamentary recess not one question was asked of me in question time. Meanwhile, a smear campaign was waged against the Liberal Party's opponent in the Lord Mayoral elections. Here I was briefed to the eyeballs and the Opposition did not ask me a single question.

**CHAIR:** We know the Government rightly has spent a great deal of money on the Sydney Olympics, but has the State Government given or promised any public funds for the 2002 Gay Games to be held in Sydney?

**The Hon. M. R. EGAN:** To my knowledge, no.

**CHAIR:** Did the New South Wales Government pay in whole, or any part of, the winning bid or licence fee to the Federation of the Gay Games to have them held in Sydney? A licence fee must be paid, which was reportedly up to \$1 million.

**The Hon. M. R. EGAN:** Again, to my knowledge, no, but it would not normally be something under State Development. According to Mr Harris there has been no funding approved. Apparently there has been an application to the events committee.

**Mr HARRIS:** There was an application made to the major events committee of Tourism New South Wales and to the best of my knowledge no funds have been provided by that committee and no funds have been given by Tourism New South Wales.

**The Hon. PATRICIA FORSYTHE:** Has Treasury paid consultancy Hawker Britton in the last two years? For what purposes were they paid a fee and on what dates?

**The Hon. M. R. EGAN:** That question is based on a premise that we have paid them something. What is the basis for that assertion?

**The Hon. PATRICIA FORSYTHE:** You can of course indicate whether there has been payment.

**The Hon. M. R. EGAN:** Why do you not ask first of all, Has there been any payment to Hawker Britton. Have you paid any money to Hawker Britton?

**Mr PIERCE:** No.

**The Hon. M. R. EGAN:** Did you engage them for any purpose?

**Mr PIERCE:** No.

**The Hon. PATRICIA FORSYTHE:** How much has Treasury paid for consultancies in the last two years, for what purposes were they engaged, what was the date and what was the amount?

**The Hon. M. R. EGAN:** I believe we report on that in our annual report.

**Mr PIERCE:** Yes.

**The Hon. PATRICIA FORSYTHE:** Of course, that does not preclude you from answering questions at estimates hearings.

**The Hon. M. R. EGAN:** Well, it is a bit of a waste of time for you to ask questions when the information is available on the public record.

**CHAIR:** Can you direct the Hon. Patricia Forsythe to the page reference?

**The Hon. M. R. EGAN:** I am quite happy to spend part of my day tomorrow going through the Treasury annual report, photocopying the relevant pages, going up to your office on level 11 and giving it to you, but you can do that yourself.

**The Hon. PATRICIA FORSYTHE:** I will save you that trouble and put the question on notice. What legal expenses have been incurred by you in your portfolios and as Leader of the upper House since April 1995? To whom has that money been paid, on what dates and for what purpose?

**The Hon. M. R. EGAN:** I believe the only legal expenses incurred, if you like, by me in my capacity as Leader of the Government are in relation to *Egan v Willis* and *Egan v Chadwick*. I am not aware of anything else. I have a figure of \$150,000 in my mind, but I am not quite sure whether that is accurate. I could check on that. I am not sure whether we pay that or it is paid by the Attorney General's Department. I do not think it would come out of my ministerial office budget, and it would not be a Treasury matter.

**Mr PIERCE:** It does not come out of the Treasury budget.

**The Hon. PATRICIA FORSYTHE:** Your answer was rather vague and not terribly precise.

**The Hon. M. R. EGAN:** I will get the details. I have no problems.

**The Hon. PATRICIA FORSYTHE:** And you will put it on notice?

**The Hon. M. R. EGAN:** Yes, absolutely. I have a feeling I might have read about it in the newspapers, in which case it is already public knowledge.

**The Hon. D. F. MOPPETT:** Referring back to the 1998 report of the Council on the Cost of Government, which, despite its critical tenor, apparently left a transient, if any, impression on you—

**The Hon. M. R. EGAN:** No, I have not read it. I do not remember it.

**The Hon. D. F. MOPPETT:** I remind you of some of its observations. It identified that the cost of corporate services was a major strategic issue and suggested that savings of between \$180 million and \$360 million could reasonably be expected from a strategic project. The council then called for fundamental and radical change. Could you comment on what reaction, although you cannot remember the report, you may have put in hand to address that strategic issue of costs in this area?

**The Hon. M. R. EGAN:** As you probably know, if you have been paying attention during question time over the last four years, on a number of occasions I have referred to corporate savings which are quite significant. For example, in the building in which my office is located, Governor Macquarie Tower, a

number of agencies are located. There was a time, after we came to office, that each one of those agencies would have had separate payroll functions and separate IT operations. They are now all done jointly for all the agencies in the building, as I understand. So there is a significant saving in an initiative like that.

Certainly over the last four years we have made major efforts to achieve significant savings in corporate overheads, but it would not surprise me—as I say, I have not read the December 1998 report of the Council on the Cost of Government—if there are further significant savings in the corporate services area that we should be pursuing.

**The Hon. D. F. MOPPETT:** Certainly I would consider you would subscribe to the view that the author is authoritative, if not the oracle, as far as you are concerned?

**The Hon. M. R. EGAN:** No-one is.

**The Hon. D. F. MOPPETT:** Anyway, he is an authoritative person. He has suggested in his report that radical changes appear to be the exception rather than the rule, and also that essential resources allocated to the reform program appear overstretched, that amongst agencies a sense of urgency is not apparent, and that these are not the ingredients for radical change and major cost savings. How do you believe you should address those sorts of criticisms from here on, now that this has been brought to your attention?

**The Hon. M. R. EGAN:** I certainly get the impression that agencies are very much aware of the need to make what savings they can in areas like corporate overheads, and in fact do so. I do not know whether Mr Pierce has an observation.

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**Mr PIERCE:** It is certainly one of the factors in the agenda that Treasury would sit down with when discussing budget with an agency in the coming years, not only because it is something that Treasury is concerned about but because a group has been established within the Premier's Department with a specific brief to pursue corporate service savings through facilitating further reforms, such as the one that has been undertaken within Governor Macquarie Tower [GMT]. Trials have been developed for groups of agencies; it is not the case of one size fits all. To get those savings it is appropriate, as it is in the case of GMT, for departments with different functions to be serviced from one corporate services area.

In other cases groupings based upon similar functions may be more appropriate, particularly when the payroll and those sorts of things are heavily influenced by shiftwork. But if you have a bunch of agencies that have predominantly those sorts of work practices then you try to keep them together. In each budget in which I have been directly involved, corporate service savings have been an important part of the budget discussions, primarily because it is seen as a way of obtaining savings in the operation of a department that can then be redirected towards service delivery. Those savings are not earmarked as something coming back to Treasury; they are pursued primarily to enable the department to increase its service delivery.

**The Hon. PATRICIA FORSYTHE:** Treasurer, I refer you to an answer you just gave my colleague. You said that you have not read the recent report of the Council on the Cost of Government. In view of the fact that amongst the other management reviews it includes one on the Ageing and Disability Department, how do you justify, for example, the advice that has been given recently to the Ageing and Disability Department in relation to the tender of group homes if, in fact, information about the department has not been read by you?

**The Hon. M. R. EGAN:** Was that dealt with in the December—

**The Hon. PATRICIA FORSYTHE:** Yes.

**The Hon. M. R. EGAN:** I am afraid I have to apologise that I have not read every report that hits my desk. I know it comes as a shock, but I have to admit that some reports go unread. I take a number of them on holidays with me for bedtime reading, but even then I do not get around to all of them.

**The Hon. D. F. MOPPETT:** You will have to delve into the too-hard basket to find it again.

**The Hon. M. R. EGAN:** I took a lot of reports to Vanuatu with me.

**The Hon. PATRICIA FORSYTHE:** Is that why we lost you for the rest of the session?

**The Hon. M. R. EGAN:** Whilst I was in Vanuatu I did not exactly visit the Ministry or the Department of Finance, but I did walk past it. Next to the Department of Finance was an empty shop and there was a newspaper displayed in the window of the empty shop that was causing a lot of interest among the locals. I went up to see what they were looking at, and they were looking at the *Sydney Morning Herald* coverage, notably David Humphrey's comments, of my 1999 State budget. They were very excited to see me.

**The Hon. PATRICIA FORSYTHE:** Did you autograph it while you were there?

**The Hon. M. R. EGAN:** No, it was inside the window. I was able to tell them that we were spending a record amount on education, and they were able to tell me that their teachers had not been paid since February.

**The Hon. PATRICIA FORSYTHE:** And that 630 staff were taking voluntary redundancies in TAFE?

**The Hon. M. R. EGAN:** The local newspaper said that the Ministry of Education was remaining tight-lipped about the non-payment of the Vanuatu teachers. But they were very interested in the New South Wales budget.

**The Hon. PATRICIA FORSYTHE:** Notwithstanding that you have not read the report—I know you get a lot of pieces of paper across your desk because we have just heard all about that—it contains reviews of a raft of government departments and agencies. You said you have not read it. How do you justify the \$10 million that is spent on the Council on the Cost of Government if you have not read the reports?

**The Hon. M. R. EGAN:** That is a silly suggestion. That means that any agency that produces any piece of paper that I do not read should not have any money spent on it. That is crazy!

**The Hon. PATRICIA FORSYTHE:** But you did say earlier that the Ministers write to you, leaving aside that department officers might talk to other Treasury officers, with an appeal for money or other things? What position are you in to give advice?

**The Hon. M. R. EGAN:** If I read every piece of paper that came my way I would not have time to read their letters.

**The Hon. D. F. MOPPETT:** You only read the Vanuatu chronicle!

**The Hon. M. R. EGAN:** I think you have run out of questions now and you are just being silly.

**The Hon. D. F. MOPPETT:** I think we have some good questions.

**The Hon. M. R. EGAN:** I think you have run out.

**The Hon. D. F. MOPPETT:** Another section of the report referred to service competition in government services, and pointed out that in those various service providers—

**The Hon. M. R. EGAN:** Are you talking about this report I have not read?

**The Hon. D. F. MOPPETT:** Yes, but I think you could comment on the policy direction.

**The Hon. M. R. EGAN:** Why do you not give me the opportunity to read the report over next 12 months and next year I will be in a position to be able to give you an informed and concise response?

**The Hon. PATRICIA FORSYTHE:** About the previous year's report?

**The Hon. D. F. MOPPETT:** I am sure you could address yourself to this question because it deals with—

**The Hon. M. R. EGAN:** I really do not want to address myself to some section of a report that I have not read.

**The Hon. D. F. MOPPETT:** Why do you not just try, because that is what we are here to do, to try to benefit from your comments.

**The Hon. M. R. EGAN:** If I am commenting on a report that I have not read, even a newspaper report, I usually find that generally what is put to me as being in the report is not accurate, is out of context, or I get it out of perspective because I have not read it. It is a very bad principle to comment on things that you have not read.

**CHAIR:** I refer to Budget Paper No. 2, page 3-14. The line item referring to gambling taxes states that revenue from gambling taxes in 1998-99 is expected to be below the level predicted in last year's budget, mainly because of the slower take-up by hotels of the 2,300 auctioned poker machine licences. You also indicated that revenue from gambling taxes is expected to increase broadly in line with the gross household disposable income over the forward estimate period. As you know, there has been a great deal of concern expressed about the number of poker machines in Australia, particularly in New South Wales which has 10 per cent of the world's poker machines, and even that figure may be higher. There has also been controversy over the large development at Liverpool with up to 1,000 or 1,500 machines. A proposal has come from the community that there should be a cap on poker machines. If that cap were introduced would it have an effect on your budget estimates and, if so, a serious effect? Are you anticipating a growth of tax revenue from poker machines every month in your budget planning?

**The Hon. M. R. EGAN:** I would expect that there would be some growth in the number of poker machines factored into the poker machine revenue estimates over the next couple of years. There is an increase as new clubs open or as clubs expand, although it is interesting to note that the proportion of the total tax revenue New South Wales gets from gambling is lower than the other States. I think it is about 11 per cent in New South Wales; Victoria gets about 16 per cent of its total tax revenue from gambling taxes; South Australia gets 14 per cent; and Queensland gets 12.3 per cent. I would expect that if a cap were put on the total number of poker machines there would be some impact on our revenue down the track. As I have told you many times before, I have a very different attitude to gambling than you have and a very different attitude, probably, to my colleague the Premier, which just means we come from a different background. His education was paid for by the State's taxes; mine was paid for by the likes of my parents gambling.

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**CHAIR:** Would you oppose a cap on the poker machine level for economic reasons?

**The Hon. M. R. EGAN:** Do you want to make a social comment on gambling?

**Mr PIERCE:** The Chair asked whether our estimates relied upon an increase in the number of gambling devices. I would merely comment that, particularly over the forward estimates period, the budget estimates are not predicated on any particular increase in the number of gambling machines. It is a simple economic relationship between the level of household disposable income and the amount that people tend to put through gambling devices. If there were a lower rate of growth in the number of machines that are available, that would not show up in our modelling. The interpretation you could put on that is that the existing machines would be used more intensively. So from the viewpoint of economic relationships and hence the revenues, it is really determined by how much income people choose to put through gambling devices rather than us having an estimate of how many more machines are going to be in place and building the revenues on that basis.

**The Hon. PATRICIA FORSYTHE:** Last night in another estimates committee the Minister for



Gaming and Racing said that any future decisions about an increase in gambling in New South Wales should be a matter for Treasury. Do you agree?

**The Hon. M. R. EGAN:** Certainly on any gaming issue that affects our revenue, as a member of the Cabinet I will be involved in contributing to the decision. The king speaks with one voice and I do not know what voice that will be, but I will be contributing to that collective voice from my background as a working-class kid whose education was paid for by illegal gambling.

**The Hon. A. B. KELLY:** As a lot of us were.

**The Hon. M. R. EGAN:** That is right, you too, by the State. The school you went to was all State funded.

**The Hon. H. S. TSANG:** Me too, Treasurer.

**The Hon. D. F. MOPPETT:** Treasurer, you have often commented on the difficulties the Opposition experiences in putting together questions. You said that you do not read the reports of the Council on the Cost of Government—

**The Hon. M. R. EGAN:** No, I said I did not read that report.

**The Hon. D. F. MOPPETT:** Then would you be bold enough to suggest any one of your colleagues who might have read these reports so that we can ask questions of them?

**The Hon. M. R. EGAN:** You would have to speak individually to each of my colleagues. I do not know whether the Hon. Tony Kelly has had an opportunity to read it.

**The Hon. A. B. KELLY:** The Premier was certainly aware of the report last night.

**The Hon. M. R. EGAN:** Has the Hon. Peter Primrose had an opportunity to read about it?

**The Hon. P. T. PRIMROSE:** I scanned it but I have forgotten about it.

**The Hon. M. R. EGAN:** Henry?

**The Hon. H. S. TSANG:** I certainly want to read it now.

**CHAIR:** The Treasury officials would have read it. That is the whole point.

**Mr PIERCE:** Most certainly.

**CHAIR:** Thank you, Mr Treasurer, for attending this estimates committee. Thank you to the Treasurer's staff and representatives of the departments and agencies for giving your time tonight.

**The Hon. M. R. EGAN:** I think we should apologise to the Department of State Development, which has a great story to tell. This State is leading the nation in terms of economic growth and we only got about three questions. One was a complaining question about assistance given to the Central Coast. The questions from the Chair were intelligent and to the point, but I would have thought that the Opposition would be more interested in the assistance that we give to our great regions than the absence of questions indicated tonight. It was a personal disappointment to me. I am sure it is a disappointment to people in rural and regional New South Wales. It is a disappointment, I am sure, to everyone who is currently unemployed and seeking a job in this State, which of course is leading the nation in the creation of jobs, so do better next year.

**CHAIR:** Mr Armstrong's questions are on notice, so a series of questions remains outstanding.

**The Hon. D. F. MOPPETT:** We will probably call you back before the Committee when we have had a chance to peruse the answers.

**The Hon. M. R. EGAN:** I would like to table a document about the New South Wales fiscal position, about our achievements in job creation, tax cuts, slashing of government debt and a general account of our tax record, \$5.5 billion in Labor tax cuts. That compares with an increase of \$10 billion as a result of the Coalition's tax measures during its term. I am sure that you would be happy to have these tabled because they will make very interesting reading.

**Leave granted.**

**The Committee proceeded to deliberate..**

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